



**Illinois**  
**Department of Commerce**  
**& Economic Opportunity**

Bruce Rauner, Governor

**From:** John DeBlasio, Director for International Trade and Investment  
**To:** Interested Parties  
**Date:** May 4, 2015  
**Subj:** Key Reforms Needed to Strengthen Foreign Direct Investment in Illinois

In order to obtain an independent assessment of Illinois' competitiveness, the Governor's office asked the state's largest foreign trading partners to share their confidential views on Illinois' attractiveness for investment from their countries.

Collectively, these nations have invested tens of billions of dollars in factories, warehouses, office buildings, and transportation facilities across America, and employ hundreds of thousands of American workers. They are in a unique position to compare the relative strengths and weaknesses of individual states with which Illinois must compete. Every year they make important decisions on where to locate major new facilities and high-paying jobs. Their comments taken together create a policy roadmap of strategic recommendations that we can use to drive powerful new economic growth and job creation in our state.

Attached are the letters, memos, and priorities the Governor's Office has received, with names, locations, and specific stories redacted to protect the confidentiality of individual countries. The letters deserve to be reviewed in detail, but some of their key comments are highlighted below:

- "Top Concern: tax issues-too high, property & corporate, worries about further increases due to financial condition of the state"
- "There are large (and growing) perceptions that infrastructure improvements are not keeping up"
- "Foreign firms place a premium on opportunities to "cluster" – to work with concentrations of talent in their sector"
- "The plethora of universities, research institutions & accelerators headquartered in the region constitute a significant positive – firms and entrepreneurs are drawn here by the world-class innovation taking place"
- "Chicago is attractive to college students – which therefore enhances the quality of the workforce pool"
- "Vast difference in perception between Chicago and downstate Illinois. While the former has plenty of positives, the latter is not seen to be competitive with Indiana, Wisconsin, etc."
- "Costs in particular linked to Unions are high. It's a problem, especially with Wisconsin and Indiana as neighbors – if there is a legal dispute with workers....Cook County is known for being anti-boss or pro-employee"

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- “Right to Work is being used by other states to position them favorably compared to Illinois. This is similar to other labor market regulations and workers compensation, unemployment insurance levels, etc. that put Illinois at a disadvantage compared with other states”
- “The manufacturing workforce is aging and vocational training for the next generation of skilled employees is lacking”
- “Chicago is one of the most expensive trade show locations in the world. Being an expensive/bureaucratic trade show location often carries over to the state being perceived as a high cost/bureaucratic location for investing”
- “Illinois overseas offices are primarily focused on exports not investment attraction, which is two very different tasks”
- “Many states have modernized their structure by founding Economic Development Corporations tasked specifically with pursuing investors”

## Nation #1

### Some remarks on foreign investment in Illinois (non paper)

#### *Geographical*

. my country is a big investor in the US, and vice versa. Companies look at the US as a whole. Most of them will not have any advance knowledge about particular states in the US, except the well known ones like e.g. New York, California and Texas.

. Chicago/Chicagoland is the best known city in the middle of the US, but not always for the right reasons. Chicago/Chicagoland makes Illinois in principle the most important state in the Midwest, Chicago is considered the capital of the Midwest. But there is no reason for complacency or arrogance.

. Illinois as a state should promote itself more overseas. It needs to go the extra mile compared to states like New York.

. companies that are based here, do appreciate certain strong points, like a well educated workforce, but this is valid for the Midwest as a whole, not Illinois in particular.

#### *Investment*

. first of all, one needs to distinguish between big companies and SME. The first category will have enough substance to overcome most obstacles.

. Chicago and surroundings are the economic cornerstone for Illinois, for both big, global and SME companies, given the excellent interstate and international connections through O'Hare Airport and other facilities (logistics, distribution). This is an asset, but how does the rest of Illinois fit in?

. however, the main concern of SME's is the unpredictability of the investment climate in Illinois if they start comparing with states like Indiana, Wisconsin and Michigan. For example, companies may be concerned if the longstanding financial problems of Illinois will lead to tax increases.

. smaller companies in general do not get the same conditions for investment in the State of Illinois. It is not unusual for most countries to focus on the big hauls, but if Illinois wants to make a difference compared to other states, it might consider giving more attention to smaller companies.

. many various administrative units, municipalities, fire departments, have their own rules or codes which a foreign company needs to comply with. These different units do not always cooperate efficiently.

. Takeovers may often be an important argument for a foreign company to settle in a particular state.

. another manufacturing company got very good conditions in Wisconsin, and therefore decided to set up shop there, but is still close enough to Chicago. This is an issue for Illinois.

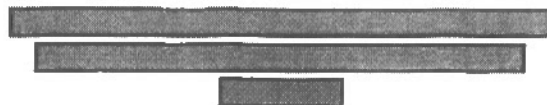
. for younger employees liveability of cities is a major point. For Chicago no problem, but how about other cities.

## Nation #2

1. Tax rates – relatively competitive personal income tax rates are hurt by high property and corporate tax rates. For SMEs, tax administration in Illinois is more difficult than in other states.
2. Infrastructure – Illinois is particularly attractive for foreign investors because of its central geographical location. As a logistics hub it cannot fall behind in investing in key infrastructure (especially roads, public transport).
3. Skilled labor – Illinois is renowned as a manufacturing location, but the manufacturing workforce is aging and vocational training for the next generation of skilled employees is lacking.
4. Right to Work – This issue is being used by other states to position them favorably compared to Illinois. This is similar to other labor market regulations and workers compensation, unemployment insurance levels etc. that put Illinois at a disadvantage compared with other states.
5. Illinois undersells its position as an investment location and is outgunned by less attractive states, particularly via fewer staff resources and lack of consistent overseas investment attraction activities.
  - a. Many foreign investors have little to no perception of Illinois, resulting in Illinois not even being considered as a potential location.
  - b. Illinois' overseas presence is a fraction of that of competing states [REDACTED]
  - c. Illinois' overseas offices are primarily focused on exports, not investment attraction, which is two very different tasks.
  - d. DCEO staff lacks foreign language capabilities of key investor countries, particularly among those tasked with investment attraction.
  - e. Many states have modernized their structure by founding Economic Development Corporations tasked specifically with pursuing investors.
  - f. Illinois tends to be much more reactive in responding to potential investors rather than proactively identifying and targeting potential investors.
  - g. Existing investor companies are seldom utilized as testimonials or in attraction efforts of additional companies from their home countries and/or supply chain.
6. For potential investors, due to lack of direct outreach (above), the perception of Illinois is often dominated by two factors:
  - a. Flying through O'Hare airport, often associated with customs and flight delays (customs improving lately)
  - b. Trade show participation – could be a positive, other than the perception that [REDACTED]  
[REDACTED]  
[REDACTED]

Chicago is one of the most expensive trade show locations in the world. Being an expensive / bureaucratic trade show location often carries over to the state being perceived as a high cost / bureaucratic location for investing.

7. Illinois doesn't leverage its position regionally  
Chicago is often seen within the US as the "capital" of the Midwest, though the Midwest is seldom marketed or referred to as a cohesive region, except in negative terms ("Rustbelt"). The South has built an effective brand as an investment destination, which benefits their hub cities like Atlanta and Charlotte.
8. Coordination with local economic development organizations is poor – no cohesive message and unlike other states, doesn't come across as a team effort between state-level representatives and "local experts". Also opportunities for targeting specific strengths (logistics, advanced manufacturing, agriculture, etc.) are underutilized.
9. State fiscal crisis - State financial crisis leads to perception of state not being an attractive investment location, as higher taxes can be expected in the future to solve fiscal crisis. Perception that state is insolvent yields perception that businesses in the state are in similar situation (similar to Detroit perception).



### Nation #3

#### The Illinois (and Chicago) Investment Picture for [REDACTED]

There are many positives for Illinois as a location for Foreign Direct Investment, especially when Chicago specifically is added into the mix. [REDACTED]

But I should say at the outset that the perception of Chicago (and its suburbs) as an investment location is far more positive than down state Illinois. The latter suffers from all of the negative perceptions of Illinois and Chicago, whilst failing to benefit from the positive perceptions of Chicago the city. Companies looking at Chicago and environs will see it as a totally different package than downstate Illinois – far more so than if a company was considering Milwaukee or the rest of Wisconsin. As a result the major chunk of Illinois as a state as a possible investment destination, does not fare well in comparison to Indiana, Wisconsin and even Iowa.

There are some major impediments to investment. But equally many of the issues discussed are ones of perception based on lack of understanding and ignorance. Chicago benefits from its location in the middle of the country; but this is also an impediment as this middle is also the "lost heartland". A targeted marketing campaign would help, pitching at strategic industries [REDACTED]

#### There are plenty of Positives

- Chicago is a global City; it has an identifiably international culture; a habitable and appealing downtown (people want to live in Chicago unlike the other regional urban centers); it is a city that appeals to expats once they know what it offers (see below) including good schools, excellent medical facilities, communications; arts and culture, sports etc etc;

- Illinois has great transport and communications – excellent and easy to access shipping, Ohare airport is a global passenger and air freight hub, Illinois is in the middle of the country for rail and roads etc;

- Chicago is a regional hub and is therefore the center of gravity for the surrounding states;
- Chicago is attractive to college students - which therefore enhances the quality of the workforce pool;

[REDACTED]

But much of this is balanced by the Negatives

- As I said at the outset one of the biggest negatives is geography - Chicago is not on the East or West Coast! Blatantly obvious, but none the less really significant! Internationally there is a deep lack of understanding about the Midwest ("it's still inhabited by buffaloes and bears"). Even [REDACTED] companies have a high degree of ignorance about Chicago and the region and rarely see beyond Capone and Jordan (simplistic but not far from the truth). We need to raise awareness and demonstrate the range of business opportunities that exist here and the excellence of life here for the workforce. Once we get them here, there is a real sense of surprise closely followed by a real sense of interest. I cannot underestimate how significant this is - companies still look in the first instance at traditional locations around Boston, NY, Cal etc as well as the new coastal hotspots (Georgia, NC etc) before considering Chicago and Illinois.
- There is persistent budget uncertainty for companies in Illinois, particularly on taxation, coupled with existing high rates of corporation tax etc. Companies want stability in tax and regulatory framework, especially if they are building a manufacturing site and thus committing to the State for a period of time. There is a sense that the Illinois State Government has built a climate of uncertainty around its budget which will impact on the cost of production (pensions, income tax and particularly high and often discriminatory commercial property taxes (14% annual increase for residential rents in Chicago don't help)
- Existing lack of certainty is coupled by a fear of mounting budget debt and the potential impact this will eventually have on the ability of the State to service its business sector and sustain the quality of its infrastructure.
- High crime rates - hugely amplified internationally. Chicago is seen as the crime capital of USA - [REDACTED]. Although I cannot confirm the reason - it is a fair bet that [REDACTED] media/press reports on crime in Chicago are a contributory factor.
- Vast difference in perception between Chicago and Down-State Illinois. While the former has plenty of positives, the latter is not seen to be competitive with Indiana, Wisconsin etc. Companies are prepared to accept the budget uncertainty in a city which has a lot to offer the workforce; they are less enthusiastic when the options nearby are cheaper, there is more budget stability and the "state offer" is competitive.
- For less traditional industries (especially small niche companies) the regulatory framework can be inflexible and there is often a sense of discrimination towards the corporate. Several examples have been given to me recently from companies who have had difficulty codifying their activities/market sector as they do not correspond precisely with the existing list of business sectors/product codes etc.

[REDACTED]

[REDACTED]

[REDACTED]

#### Nation #4

##### 1) Main Costs:

- Sale tax in Chicago is known to be high;
- Income tax in Illinois is among the highest in the US. It's now down to 7.5% but it's expected to go back to 10%. There are ways by which the Illinois State reduces in effect this rate but the perception remains of a very high 10% tax. This does not attract companies.
- Other States offer significant cost reductions. There is the case of a [REDACTED] which decided to establish a plant in [REDACTED] rather than Illinois because they were offered a 10 year reduction on real estate tax and on employment and were offered a land on which to build the plant.

##### 2) Main regulatory challenges:

- For companies with manufacturing or assembly plants - i.e. with larger blue-collar workforce - costs in particular linked to Union are high. It's a problem, especially with Wisconsin and Indiana as neighbors;

- If there is a legal dispute with workers, I've been told that "Cook county is known for being anti-boss" or pro-employee;
- Incentives in Illinois are very complex and difficult to understand for foreign companies, in particular SMEs.

##### 3) More work needs to be done by your offices abroad:

- To attract more foreign corporation in Illinois the challenge is more one of Image. Chicago and Illinois are not well known abroad. [REDACTED]

##### 4) Until recently, the administration at the State level was not particularly efficient in helping foreign companies:

- our experience, until last year, is that it's difficult to find the right person and, when we do, that person does not answer quickly, efficiently nor precisely;
- in other states, there's an Agency (not a Department within the State administration) dedicated to economic development and to assist foreign companies in their investment projects. This is the case for example in Michigan, Indiana or Wisconsin. In Michigan, the Agency has about 20 people for this;
- however, World Business Chicago helps some of our companies and became more efficient.

##### 5) Chicago and Illinois have a lot of assets:

- O'Hare Airport, trains, water transportation and other logistics platforms. For many decades, Illinois didn't have to do much to attract companies,
  - Quality of life is high, with school, culture, etc;
- [REDACTED]
- The presence of many incubators in the manufacturing, high-tech, health and other sectors is another asset for Chicagoland.
- [REDACTED]
- [REDACTED]
- [REDACTED]



#5

The [redacted] Business Community's Perception  
of the  
Illinois Investment Environment

1) Corporate Tax and Fiscal Situation

- Corporate income tax rate
- Corporate franchise tax imposed on paid-in capital

2) Other Taxes

- Individual income tax
- Property tax

3) Labor

- Right-to-work law
- Workman's compensation premium

4) New Opportunities

- Rapid response team and enhanced communication
- Driver's license approval for family members without Social Security numbers, and drivers' license exams and study materials in [redacted]
- State business incentives in [redacted]

5) Non-State Issues

- Time needed to obtain Social Security numbers for spouses
- Inconsistent issuance of building permits
- Flight delays and cancellations at O'Hare Airport

### Nation #6

companies have made significant investments in Illinois over the years; today, more than 24,000 Illinois workers are employed in the State at companies

As your Administration knows well, representatives of foreign governments here do not principally work to facilitate inward investment to the U.S. (although unlike our US Commercial Service counterparts, our government does not prohibit us from assisting [REDACTED] firms interested in establishing operations abroad). Accordingly, in the course of any given period, we will have discussions [REDACTED] companies interested in our assessment of local conditions and prospects. We offer advice when asked, help connect prospective investors to sources of information and assistance in the state, and gain considerable insights along the way as to the perceptions and priorities [REDACTED] firms contemplating investment in the case of our Consulate, in the U.S. mid-west. Here's a summary of what we hear:

- Companies considering Illinois are attracted to the state for its centrality as a transportation & distribution hub. Chicago's cosmopolitan nature and its diversified economy are real pluses;
- Foreign firms place a premium on opportunities to 'cluster' to work with concentrations of talent in their sector. The greater Chicago area is particularly inviting because of its leading financial sector and due to the presence of global headquarters;
- The plethora of universities, research institutions & accelerators headquartered in the region constitute a significant positive. [REDACTED] firms & entrepreneurs are drawn here by the world- class innovation taking place. The personal connections and relationships that underpin collaborations further enhance Illinois' innovative and entrepreneurial reputation and draw;
- By contrast, potential investors definitely are aware of the severe fiscal challenges facing the State (and the City). Investor comfort correlates with medium term 'certainty' confidence over the 'rules'. We get lots of questions about IL's Chicago's financial viability. They generally take the form of: "will taxes spike to pay the State's and the City's obligations? Or will services (education, law enforcement, ...) be significantly cut? Or will there be some other solution that ensures it will still be viable for businesses to operate in Illinois Chicago?"
- There are large (and growing) perceptions that infrastructure improvements are not keeping up not only with businesses' to move their products, but with their employees' needs (and those of their families) to commute and, more generally, to live their lives to the fullest;

## Nation #7

Thank you for your mail. Replies [REDACTED] to your questions are given below, based on the inputs received from [REDACTED] companies operating in Illinois:

- Most companies have cited high cost of renting office spaces in the Chicago downtown as a constraint. Even rentals of office accommodation in the Chicago suburbs are also quite high.
- Some companies feel, that Illinois being a workers' union friendly state, the worker compensation premium in Illinois is very high as compared to other states, thereby adding to the over-all operating costs of companies. The company registration costs as well as manufacturing costs are also apparently high as compared to other states.
- The cost of availability of skilled labor is also higher as compared to other states.
- Unlike some neighboring states like Indiana, Illinois is apparently not very forthcoming in granting tax credit to companies as an incentive for attracting companies. The state income tax is quite high and [REDACTED] property taxes are also high, thereby pushing up the employees' salaries and increasing the companies' operating costs. These high taxes are being perceived as one of the reasons for the companies opting for other states in preference to Illinois.
- [REDACTED] companies have also cited unduly cumbersome process for obtaining visas for [REDACTED] employees.
- [REDACTED] companies uniformly agree that Illinois has definitely several distinct advantages over other states like its central location, infrastructure and international connectivity [REDACTED] by the state, especially to the manufacturing sector and setting of Small & Medium Enterprises, would go a long way in promoting the state as an attractive investment destination [REDACTED] companies.

[REDACTED]  
[REDACTED]  
[REDACTED]

Nation #8

## SOME THOUGHTS ON ILLINOIS' FDI OFFERING

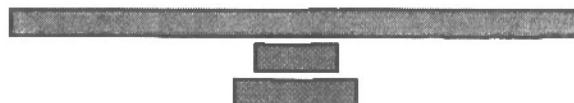
- I can't tell you what Illinois needs to do or indeed what [REDACTED] are doing better than you but I can tell you what [REDACTED] did to set ourselves apart and what has worked for us

[REDACTED]

- So Illinois needs to set itself apart in terms of its FDI offering. It needs to identify its areas of strength and potential advantage, develop them and sell them to potential investors as key points of advantage over your competitors.
- Illinois, [REDACTED], needs to constantly update and re-invent its FDI offering
- [REDACTED] is doing that now by stressing key competitive advantages:
- **Talent:** [REDACTED] an internationally competitive location for talent attraction and growth.
- **Place-making:** to position [REDACTED] for start-ups, fast growing firms and talent.
- **Connected world leading research:** [REDACTED] one of the most enterprise aligned science, technology & innovation systems in the world, renowned for excellence in research, connecting and collaborating with enterprise, delivering sustainable economic impact, and attracting investment and exceptional talent
- We also offer a competitive corporate tax regime. Can Illinois say the same?
- Illinois needs to:
- **Build on its existing strengths** in sectors, activities and markets [REDACTED], [REDACTED].
- **Position itself to exploit new areas of opportunity;** and
- **Facilitate different modes of investment** [REDACTED].
- **Focus on:**
  - **Developing talent**

[REDACTED]  
[REDACTED]  
[REDACTED]

- Establishing a **track-record** for attracting and retaining I/DI
  - Ensure that you have the **technology** framework demanded by business, large or small
  - Put in place a fair, competitive and transparent corporate **tax regime**.
- What are Illinois' unique selling points?
  - How can Illinois' develop and retain talent?
  - How can Illinois' attract outside talent?
  - Why would a company move to Illinois?
  - Why would a family move to Illinois?



## Nation #9

1. *Top Concern:* Tax issues – too high, property & corporate, worries about further increases due to financial condition of the state
2. Cost of labor- not easy to manage labor
3. Too many highway tolls
4. Parking too expensive
5. Water & electricity/utility taxes too high
6. Difficult for short term visitors
7. Driver's licenses (driver's license reciprocity program)
8. Uncertain whether state is very interested in energy sector
9. State government should create a clear list of investment guidelines    publish information about investment opportunities
10. Do more outreach to foreign companies investing here

## **A Brief Note on How the State of Illinois can promote Foreign Direct Investment**

1. Tax Reduction or Cash Transfer for New Investors
  - Provide tax incentives to lower tax burdens for new investors in Illinois.
2. Working Visa issues
3. Mutual Recognition of Driver's License
4. Trade and Investment Delegation's Visit [REDACTED]

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## **TOP 3-5 CORPORATE COSTS FOR COMPANIES IN ILLINOIS**

- COST OF LABOR - WAGES & HEALTHCARE COSTS
- TAXES
- THE AMOUNT OF TIME IT TAKES ANY FOREIGN BUSINESS TO GENERATE ACTIVITY - REVENUE
- "A 20TH CENTURY INFRASTRUCTURE SUPPORTING A 21ST CENTURY ECONOMY"

### **ADDITIONAL COMMENTS**

- WORKERS COMPENSATION PREMIUM RATES HIGHEST (PRACTICALLY) IN THE US FOR CONTRACTING OPERATIONS - I.E. INVOLVING MOSTLY LABOR COSTS
- EXCESSIVE COSTS OF BUILDING REMODELING REPAIR
- UNIONIZED ENVIRONMENT
- TRADE SHOW CENTERS [REDACTED] PROHIBITIVE COSTS
- BUDGET DEFICITS CAUSING EITHER DIMINISHED SERVICES OR INCREASED TAXES

